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SCAR Finances: Options for a balanced budget

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Summary

This paper briefly summarises how memberships' contributions and expenses have evolved since 2012.

The percentage of funds spent on SCAR activities has increased significantly since 2012 (approximately 15%), but the national contributions have not increased. Further, the accumulated UK inflation rate in the 2012–2021 period was 19,6% and is estimated to reach more than 31% by 2024.

Recommendations

SCAR Delegates to note the present situation and make a conditional decision on the different proposals, including to amend the fees at the indicated levels in principle from 2024 to balance the organisation's budget.

The 2012–2022 period: increase in expenditure without increasing national contributions

SCAR's ability to effectively carry out its Mission depends critically on its financial capacity. SCAR adheres to the highest accounting and ethical standards in its financial activities and carries out annual audits. SCAR's financial management principles include balancing the annual budgets, cost-effective management of resources to accomplish organisational goals, the active solicitation of external funds, allocation of resources in concert with the organisational goals, maintaining a reserve and an investment portfolio for emergencies and fairly and equitably compensating employees.

Over the period 2012-2021, SCAR activities have increased substantially due to the natural growth of support activities, coordination and scientific guidance, and the expansion of new subsidiary groups. Here we should highlight the creation of the Standing Committee on the Humanities and Social Sciences (SC-HASS).

Increased capacity-building activities, including more significant support for early-career Antarctic researchers, actions to ensure greater equality, diversity and inclusion, and support for women in polar careers, are all new demands from our members. These new actions have been implemented mainly with extra financial resources from international partner organisations and further promote SCAR's mission of scientific cooperation; but have entailed more activities, commitments, and work from the SCAR Secretariat.

We must emphasise two changes in the world scenario that modified the way SCAR operates and resulted in new costs for the institution. The first was the rapid change in how we communicate due to the advent and fast advancement of social media technologies. Today, no institution guarantees its impact and recognition in society without a strong presence in all traditional Internet media (such as the maintenance of homepages and online publications) and effective communication through the new social media. For this, it became essential to hire a specialised professional to work in the area, increasing the staff of our Secretariat in Cambridge from three to four.

The second modification was caused by enhancing one of SCAR's primary activities, providing objective and independent scientific advice to the Antarctic Treaty Consultative Meetings (ATCM). Due to the emergence of new issues that stress the Antarctic Treaty System (ATS) and demand solid scientific knowledge for decision making, SCAR has been increasingly requested to provide scientific-based appraisals and reports for the ATCM. Although this demands more work and costs, it increases the profile and influence of SCAR in the ATS.

The last overall increase in annual contributions from SCAR member countries took place in 2012. Since then, a small increase in total annual revenue has occurred by increasing the number of members (from 35 to 46) and reducing the number of contribution categories (in 2018). However, the total amount of these contributions did not keep up with the growth of SCAR activities nor the rate of inflation of the sterling and the US dollar (currencies in which most of our expenses are made). For example, cumulative inflation since 2012 has reached 19.6% in the UK and will possibly exceed 31% by December 2023 due to worldwide post-COVID inflation!

This paper briefly assesses the evolution of SCAR's incoming revenue and expenses since 2012 and proposes an increase in annual national contributions starting in 2024.

SCAR's annual income and expenses during the 2012–2022 period

The graph in Figure 1 below compares the SCAR total annual expenses with the total income (the national yearly contributions effectively received plus any additional income - the latter is usually restricted to specific activities, such as awards, fellowships, meetings). Note that the received annual national contributions do not coincide with the budgeted national contributions due to arrears in some payments.

We can highlight three aspects of this graph: (1) The total national contributions do not cover all the annual costs of SCAR; the balance was only achieved by the additional contributions (generally for expenses constrained by the contribution objectives); (2) The observed increase in the annual national contributions resulted mainly from the increase in the number of members; (3) The anomalous low expenditures of 2020 and 2021 result from the COVID-19 pandemic, which interrupted SCAR activities (symposia, meetings of subsidiary groups, etc.).

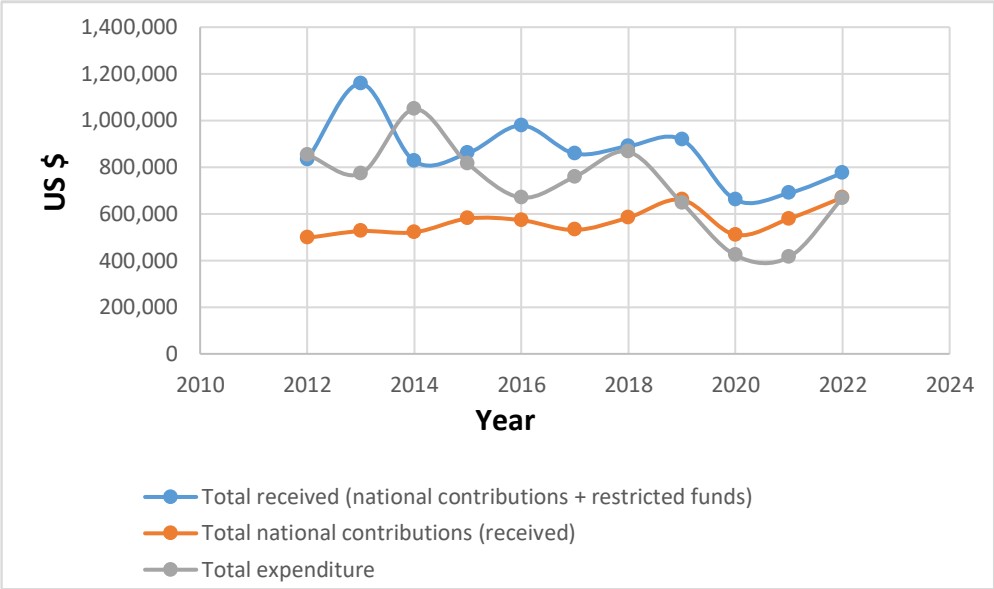

Figure 1 - Graph comparing the SCAR's total expenditure with total income in 2012–2022. Note the following details: (a) Total expenditures include both national contributions (annual fees) plus voluntary contributions from different institutions to support specific Antarctic actions (so their use is restricted). Observations: (1) The large 2013 contribution and the 2014 expenditure result from the contribution from the Tinker Foundation to cover the costs of the 2014 SCAR Horizon Scan; (2) The drop in total expenditure after 2018 results from the end of the Tinker-Muse Prize.

Figure 2 compares the evolution of the so-called permanent expenses of SCAR (i.e., it does not include the costs created by funding for specific activities) with the development of the budget's annual national contributions. These expenses include inflation, the expansion of SCAR groups, increased demand for scientific advice and staffing of communications.

The annual contributions have not kept up with the growth of SCAR's permanent expenses (additional resources provided by other sources offset this deficit). In 2022,

the annual inflation rate in the UK has reached 7%, and is forecast to exceed 10% by the end of the year. Thus, we estimate expenses for 2024 considering the accumulated inflation estimated for the biennium 2022-2023, around 10%, bringing the SCAR total annual expenses to around US $730,000. This will incur a deficit of US $60,000 to 80,000 at the present level of national contributions.

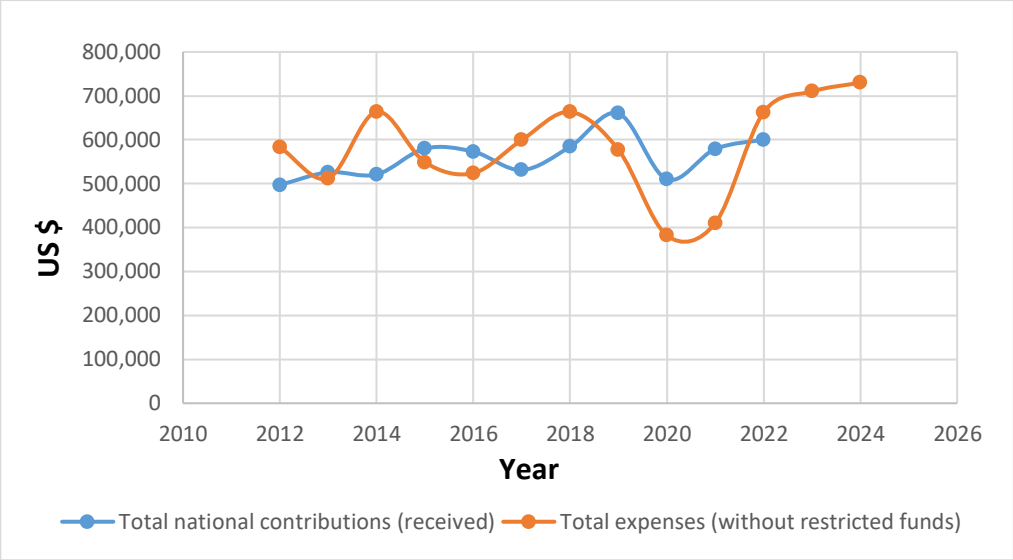

Figure 2 - Graph comparing SCAR's total annual expenditure with total national contributions (effectively received) in 2012–2022. Total spending for 2023 and 2024 are estimated considering a UK inflation rate of 7% (2022) and 3% (2023), respectively.

Investment portfolio - performance

In 2016, an independent investment advisor was engaged to advise us on our investment plans. Rathbones Greenbank was chosen as our investment portfolio manager, initiating a portfolio in September of 2017 to protect SCAR assets in the case of a crisis. A key part of this effort was to try and ensure that SCAR could manage a range of turbulent circumstances and would neither be forced to cut scientific activity nor ask for additional contributions from members at short notice. At that point, US $300,000 (equivalent to £ 225,830) of funds were transferred to Rathbones.

In April 2022, our investment portfolio has a value of US $324,619 (£252,739), an increase of 12% in sterling against an accumulated inflation rate of 11% in the same period.

Such a decision to have an investment portfolio was far-sighted, considering the crisis in the world economy caused by the COVID-19 pandemic. Also, considering any unexpected situation in the future that can affect the stability of the incoming annual contributions, as it is now the Ukraine war, the Vice-Presidency for Finances recommends that SCAR keeps the portfolio as it is, subject to corrections as the investment performance evolves.

Prospects for new partnerships and income sources

We recognise the importance of developing new partnerships and income sources to support SCAR activity and objectives. Our experience over several years is that such partnerships, whilst extremely useful and which can bring in substantial income, will focus on additional or new elements of SCAR's work and so will not be available to cover the core expenses or the existing scientific activity. We will continue to look for new partnerships but it will not address the key issue of this paper which is the growing mismatch between national contributions and permanent expenses such as the costs of scientific activity and core staffing.

Proposal to readjust national contribution from 2024 onwards

Considering:

- that the annual income to finance SCAR's activities must come mainly from the annual contributions of its members, and there has been no overall increase in national contributions since 2012;
- that the activities of the science groups and the advisory activities to the ATCM have increased since 2012;
- that the increase in activities has required an increase in Secretariat staffing and in compensating staff at competitive rates;
- that the cumulative inflation rate in the UK between 2012 and 2021 was 19.6% (and will likely exceed 31% by December 2023 due to the COVID-19 global economic crisis); and
- high inflation and economic uncertainty are forecast to continue for at least the medium term.

The SCAR ExCom proposes to restructure the annual membership contributions. Four proposals are presented for this readjustment to consider possible different conditions of the post-pandemic economy among member countries. Delegates should decide which one is most appropriate and make a conditional decision on the different options. The first 3 options would involve increases in national contribution levels that would be implemented in 2024, so members can feed back to the Executive Committee meeting in 2023 if there are any issues at a national level.

Option 1

1) An overall increase in contribution levels by 20% starting in January 2024 (by then the accumulated inflation rate since the last increase in fees is expected to be at least 31%).

   Please, notice that a 20% rise covers the total inflation from 2012 to 2021. We are able to achieve this (despite the increase of scientific advice, staffing for increased communications, and breadth of science activity) because of careful financial management and including a focus on reducing the carbon footprint of our activities, consistent with recent SCAR decisions.

   This annual contribution increase only adds yearly US$ 1,400 to US$ 5,500 for each member, depending on the membership category. Such an increase will add US$ 131.760 annually to the SCAR finances and will result in the following annual rates:

Category	Contribution in 2022	Contribution in 2024	No. of Members	Total in 2024	Member
Special Contributors	$27,500	$33,000	2	$66,000	Russia, USA
Well-Developed Programmes	$21,200	$25,440	16	$407,040	Argentina, Australia, Brazil, China, France, Germany, India, Italy, Japan, Korea, the Netherlands, New Zealand, Norway, South Africa, Spain, UK
Initial-Stage Programmes	$12,400	$14,880	14	$208,320	Belgium, Bulgaria, Canada, Chile, Ecuador, Finland, Malaysia, Peru, Poland, Portugal, Sweden, Switzerland, Ukraine, Uruguay
Associate Members	$7,000	$8,400	13	$109,200	Austria, Belarus, Colombia, Czech Republic, Denmark, Iran, Mexico, Monaco, Pakistan, Romania, Thailand, Turkey, Venezuela
Total:			45	$790,560	

2) Use unspent funds by scientific groups (carry forwards) in the 2022 budget to cover any expenses in 2022 and 2023 and balance the financial situation. In 2020 and 2021 we did not spend all the budgeted resources for scientific activities due to the COVID-19 pandemic;

3) Implementation, starting in 2028, of an automatic adjustment cycle of national contributions based on the previous four years' accumulated inflation rate. Delegates would be informed of the increase to be implemented in 2028 at the 2026 Delegates Meeting, with the figure representing the accumulated inflation rate from 2022 to 2025.

Option 2

1) An overall increase in contribution levels by 15% starting in January 2024 (by then the accumulated inflation rate since the last increase in fees is expected to be at least 31%).

   Please, notice that a 15% rise is *much less* than total inflation since 2012.

   This annual contribution increase only adds yearly US$ 1,000 to US$ 4,100 for each member, depending on the membership category. Such an increase will add US$ 99,000 annually to the SCAR finances and will result in the following annual rates:

Category	Contribution in 2022	Contribution in 2024	No. of Members	Total in 2024	Member
Special Contributors	$27,500	$31,600	2	$63,200	Russia, USA
Well-Developed Programmes	$21,200	$24,400	16	$390,400	Argentina, Australia, Brazil, China, France, Germany, India, Italy, Japan, Korea, the Netherlands, New Zealand, Norway, South Africa, Spain, UK
Initial-Stage Programmes	$12,400	$14,300	14	$200,200	Belgium, Bulgaria, Canada, Chile, Ecuador, Finland, Malaysia, Peru, Poland, Portugal, Sweden, Switzerland, Ukraine, Uruguay
Associate Members	$7,000	$8,000	13	$104,000	Austria, Belarus, Colombia, Czech Republic, Denmark, Iran, Mexico, Monaco, Pakistan, Romania, Thailand, Turkey, Venezuela
Total:			45	$757,800	

2) Use unspent funds by scientific groups (carry forwards) in the 2022 budget **and part of the SCAR investment portfolio for emergencies** to cover any expenses in 2022 and 2023 and balance the financial situation. In 2020 and 2021 we did not spend all the budgeted resources for scientific activities due to the COVID-19 pandemic;

3) Implementation, starting in 2028, of an automatic adjustment cycle of national contributions based on the previous four years' accumulated inflation rate. Delegates would be informed of the increase to be implemented in 2028 at the 2026 Delegates Meeting, with the figure representing the accumulated inflation rate from 2022 to 2025.

Option 3

As Option 1 or 2 above, but without an automatic biennial adjustment cycle proposed. So, item 3 should read:

3) Every four years, Delegates should review SCAR's financial health and decide if an adjustment of national contributions will be necessary in two years.

Important observation: By the SCAR Rules of Procedure, a proposal to increase national contributions introduced at a meeting of Delegates will, if approved, become operative at the beginning of the second following financial year. So, in this case, it is proposed to begin the cycle in the 2026 Delegates' meeting.

Option 4

1) No increase in contributions in 2024. A new proposal for readjusting national contributions should be presented at the 2024 biennial meeting to be implemented only in 2026.
2) This would imply a reduction of at least 20% in funds allocated to scientific activities from 2024 to 2026 (or until a new readjustment of annual contributions).